

VZCZCXRO9137
PP RUEHAG RUEHDF RUEHIK RUEHLZ
DE RUEHRO #2698/01 2681536
ZNR UUUUU ZZH
P 251536Z SEP 06
FM AMEMBASSY ROME
TO RUEHC/SECSTATE WASHDC PRIORITY 6045
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY
RUEHAK/AMEMBASSY ANKARA PRIORITY 3163
RUEHKB/AMEMBASSY BAKU PRIORITY 0085
RUEHSI/AMEMBASSY TBILISI PRIORITY 0208
RUEHMIL/AMCONSUL MILAN PRIORITY 7711
RUEHNP/AMCONSUL NAPLES PRIORITY 1873
RUEHFL/AMCONSUL FLORENCE PRIORITY 1760

UNCLAS SECTION 01 OF 02 ROME 002698

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E.O. 12958: N/A

TAGS: [EPET](#) [ENRG](#) [ETRD](#) [AJ](#) [AL](#) [RS](#) [TU](#) [GR](#) [IR](#) [IT](#)

SUBJECT: Edison Optimistic on Prospects of Turkey-Greece-Italy
Pipeline Completion, Requests Low-Profile USG Support

REF: ROME 1667

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SUMMARY

¶1. In a meeting with A/Ecmin and ConGen Milan representatives, Roberto Poti, Vice President for Business Development of Edison, Italy's second largest energy company, expressed confidence that the natural gas pipeline connecting Greece and Italy will be completed by 2010. Obstacles remaining include financing the Greek portion of the 300 million euro underwater pipeline connecting Greece and Italy, and clearly defining Turkey's role in the export of Azeri gas. In Edison's view, Turkey would like to become a natural gas reseller, while Edison would prefer Turkey limit its role to that of a transit state. Poti was emphatic that Turkey's selling Azeri gas would upset the "economics" of the project for Edison and would be a deal breaker. End summary.

¶2. A/Ecmin and P/E Chief ConGen Milan met September 5 with Roberto Poti, the Edison official responsible for the company's participation in the Turkey-Greece-Italy (TGI) natural gas pipeline project. A/Ecmin and Poti had previously met (reftel). A/Ecmin reiterated the USG interest in Italy's energy security, and underscored that the USG views the TGI as a key project.

¶3. Poti expressed confidence the TGI project will be completed by 2010-11. He also thought the pipeline connecting Azeri production fields to Turkey (via Georgia) should be operational by 2007, by which time the pipeline connecting Turkey to Greece should also be completed. The final link between Greece and Italy, the Italy-Greece Interconnector, will be built by Edison and the Greek Public Gas Corporation (DEPA). DEPA will be responsible for the Greek onshore portion of the pipeline, while an Edison/DEPA joint venture will carry out construction of the submerged pipeline connecting Italy and Greece (the "Poseidon" project).

Financing

¶4. Poti said Edison has the necessary 150 million euros to fund its portion of the Poseidon pipeline. DEPA, however, will need EU funding. Poti believes EU funding will be forthcoming due to strong Greek government support and because it has been identified as a "Project of European Interest." Under its agreement with DEPA, Edison will pay transit fees to DEPA for 20 years and thus guarantee cash flow for DEPA to repay its EU financing. Marco Margheri, Edison's Brussels representative, indicated it might be helpful if the USG expressed support for the project as part of the greater

U.S.-EU energy security dialogue.

Italy-Greece (IGI) Pipeline "Purely a Commercial Venture"

¶15. Poti said that while sensitive to energy security matters, Edison is committed to the IGI for commercial purposes only and not by a desire to stop Gazprom's westward expansion. He explained that because it is not a big energy company, like ENI, Edison must find alternative cheaper sources of natural gas to remain competitive.

Azerbaijan

¶16. Poti said PM Prodi had written the Government of Azerbaijan to support the Edison-Socar collaboration to extract natural gas from Azeri gas fields and that Edison had "no problems" with Azerbaijan. He was also unaware of any Russian pressures on Azerbaijan to block the project.

¶17. However, Poti said Edison cannot negotiate dates, volumes, and prices until the BP-Statoli-led consortium completes the Shah Deniz technical study. Edison believes the USG could help by urging BP (as the most "friendly" partner in the consortium) to complete the technical study as soon as possible. One key question for Edison is whether the Shah Deniz gas field can produce sufficient natural gas to allow Azerbaijan to export through the TGI. (Note: Edison expects to import approximately eight BCMS per year through the IGI; Greece, three BCMS per year. See reftel. End note.)

¶18. Poti does not think a USG direct intervention with the GOA is needed at this stage, although he would welcome the USG letting the GOA know of USG interest in the project.

Turkey

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¶19. Poti expressed concern over Turkey's desire to become an Azeri natural gas distributor, rather than only a transit country. If Turkey becomes a gas reseller, Poti sees two negative results: Edison would have to pay Turkey additional fees, thus raising the cost of natural gas to Edison; and Turkey could pump other natural gas (Gazprom) into the TGI. Poti said that the USG could help by urging Turkey to commit to the project as currently designed, with Turkey providing only transit services. Edison would also like the USG to urge Turkey to sign onto the Italy-Greece intergovernmental agreement to make it a trilateral agreement. To avoid collapse of the TGI project, Poti said Edison could agree to Turkey's Botas becoming a partner, but he did not specify how.

Russia

¶10. Poti thinks Russia is no longer trying to block TGI construction and that Russian might see the pipeline as another means to export Gazprom gas to Europe. Poti related that during Russian President Putin's recent visit to Greece, Putin asked the Greeks if Russian gas could be pushed through the IGI and the Greeks told him that Gazprom should deal with Edison directly.

Iran

¶11. Poti hinted at, but did not elaborate on, possible problems between Iran and Turkey, but he said Iran was not "hostile" to the project.

Albania

¶12. Poti said there is EU political pressure to route the TGI through Albania. Edison is vigorously opposed to this idea because there is no reason to route the gas through an additional country. "There must be no confusion between the concept of Albania's

receiving natural gas, with which we agree, and Albania's transporting natural gas, which we do not," Poti said. Edison is willing to provide Albania with natural gas and has offered to build a TGI spur pipeline to Albania, but sees no need for the entire pipeline to pass through Albania. He said the pipeline goes through enough "problem states" and that Edison does not want to be Albania's hostage in the future. Alluding to USG interest in enhancing EU energy security, Poti noted the USG could help by advocating with the EU that the IGI continue the route as planned.

TGI and Nabucco

¶13. Poti believes the TGI and Nabucco projects (the latter linking Turkey and Austria via Bulgaria, Romania, and Hungary) are not incompatible. To the contrary, he said, the two pipelines will complement each other, if the situation in Iraq and Iran stabilize. However, given the TGI's smaller scale and relative simplicity, Poti believes that the TGI is more likely to be completed first.

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